

Letter of Findings Number: 02-20140028P
Tax Administration
For Tax Years 2010-12

NOTICE: IC § 6-8.1-3-3.5 and IC § 4-22-7-7 require the publication of this document in the Indiana Register. This document provides the general public with information about the Department's official position concerning a specific set of facts and issues. This document is effective as of its date of publication and remains in effect until the date it is superseded or deleted by the publication of another document in the Indiana Register.

ISSUE

I. Tax Administration–Penalty.

Authority: IC § 6-8.1-10-2.1; [45 IAC 15-11-2](#).

Taxpayer protests the imposition of penalties.

STATEMENT OF FACTS

Taxpayer is a business with Indiana operations. The Indiana Department of Revenue ("Department") determined that Taxpayer had not filed an Indiana adjusted gross income tax composite return for 2010, 2011, and 2012 and so imposed penalties for each year. Taxpayer protested the imposition of the penalties. An administrative hearing was held and this Letter of Findings results. Further facts will be supplied as required.

I. Tax Administration–Penalty.

DISCUSSION

Taxpayer protests the imposition of penalties for 2010-12. The Department imposed a \$500 penalty for each year for failure to file 2010, 2011, and 2012 composite Indiana income tax returns. Taxpayer protests that it was unaware of the requirement to file a composite return and that Indiana did get the income tax in question via the individual shareholders' returns. Taxpayer also explained that, now that it is aware of the requirement to file a composite return, it will file the proper return on an ongoing basis.

The Department refers to IC § 6-8.1-10-2.1(j), which states:

If a partnership or an S corporation fails to include all nonresidential individual partners or nonresidential individual shareholders in a composite return as required by [IC 6-3-4-12\(h\)](#) or [IC 6-3-4-13\(j\)](#), a penalty of five hundred dollars (\$500) per partnership or S corporation is imposed on the partnership or S corporation.

IC § 6-8.1-10-2.1(d), which states:

(d) If a person subject to the penalty imposed under this section can show that the failure to file a return, pay the full amount of tax shown on the person's return, timely remit tax held in trust, or pay the deficiency determined by the department was due to reasonable cause and not due to willful neglect, the department shall waive the penalty.
(Emphasis added).

Next, the Department refers to [45 IAC 15-11-2\(b\)](#), which states:

Negligence, on behalf of a taxpayer is defined as the failure to use such reasonable care, caution, or diligence as would be expected of an ordinary reasonable taxpayer. Negligence would result from a taxpayer's carelessness, thoughtlessness, disregard or inattention to duties placed upon the taxpayer by the Indiana Code or department regulations. Ignorance of the listed tax laws, rules and/or regulations is treated as negligence. Further, failure to read and follow instructions provided by the department is treated as negligence. Negligence shall be determined on a case by case basis according to the facts and circumstances of each taxpayer.
(Emphasis added).

Finally, [45 IAC 15-11-2](#)(c) provides in pertinent part:

The department shall waive the negligence penalty imposed under [IC 6-8.1-10-1](#) if the taxpayer affirmatively establishes that the failure to file a return, pay the full amount of tax due, timely remit tax held in trust, or pay a deficiency was due to reasonable cause and not due to negligence. In order to establish reasonable cause, the taxpayer must demonstrate that it exercised ordinary business care and prudence in carrying out or failing to carry out a duty giving rise to the penalty imposed under this section.
(Emphasis added).

In this case, the Department determined that Taxpayer did not file Indiana adjusted gross income tax composite returns for 2010-12. The Department imposed penalty under IC § 6-8.1-10-2.1(j). As a result of the protest process, Taxpayer has affirmatively established that it acted reasonably, as required by IC § 6-8.1-10-2.1(d) and [45 IAC 15-11-2](#)(b). The \$500 penalty for 2010, 2011, and 2012 will be waived. However, the Department takes this opportunity to notify Taxpayer that since it is now aware of its filing duties, such a waiver may not be warranted for other years.

FINDING

Taxpayers' protest is sustained.

Posted: 06/25/2014 by Legislative Services Agency

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